

A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

Procedural Review

# **Bouse Elementary School District No. 26**

As of April 4, 2007



**Debra K. Davenport**  
Auditor General

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**STATE OF ARIZONA**  
**OFFICE OF THE**  
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WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

July 16, 2007

Governing Board  
Bouse Elementary School District No. 26  
P.O. Box S  
Bouse, AZ 85325-0395

Members of the Board:

We performed a procedural review of the internal controls of Bouse Elementary School District No. 26 as of April 4, 2007. The purpose of a procedural review is to determine whether a district is in substantial compliance with the *Uniform System of Financial Records for Arizona School Districts* (USFR). Our review consisted primarily of inquiries, observations, and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District has not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Gregg Rickert, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Thank you for the assistance and cooperation that your administrators and staff provided during our procedural review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport  
Auditor General

# TABLE OF CONTENTS



Introduction	1
Recommendation 1: The District should maintain accurate capital assets and stewardship lists	2
Recommendation 2: The District should strengthen controls over purchasing and expenditures	3
Recommendation 3: The District should ensure the accuracy of its student attendance records	4
Recommendation 4: The District's controls over cash receipts and bank accounts should be strengthened	5
Recommendation 5: The District should establish controls over student activities monies	6

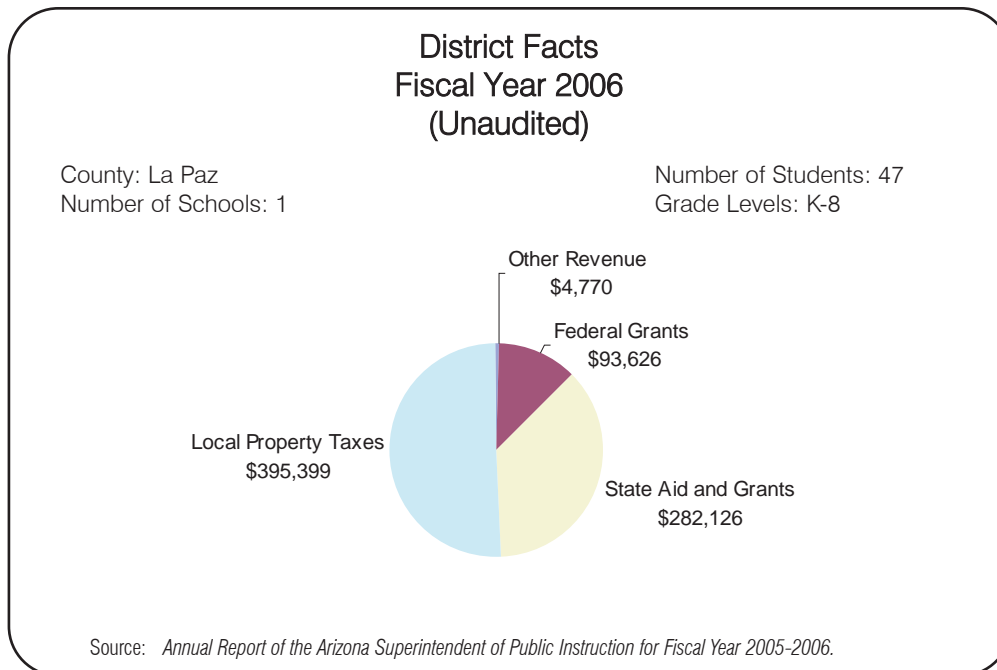


# INTRODUCTION

Bouse Elementary School District No. 26 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$775,000 it received in fiscal year 2006 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our procedural review, we determined that the District had not complied with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



# The District should maintain accurate capital assets and stewardship lists

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, effective stewardship requires the District to maintain accurate lists of these assets and to ensure they are properly accounted for. However, the District's capital assets list did not include all assets, and the capital assets and stewardship lists did not include all required information. In addition, the District did not always tag or otherwise specifically identify all items located on the District's premises. Also, the District did not always retain supporting cost documentation, and costs recorded on the capital assets list did not always agree to supporting documentation. Further, the District did not develop written instructions for performing its physical inventory of equipment and did not reconcile the results of the physical inventory to the capital assets and stewardship lists. Finally, the District did not reconcile capital asset additions to capital expenditures or the current year's capital assets list to the previous year's list.

The District did not protect its investment in capital assets, since it did not have a complete and accurate capital assets list.

## Recommendations

The following procedures can help the District improve control over its capital assets and help ensure its capital assets and stewardship lists are accurate and complete:

- Maintain a current and complete capital assets list that includes all equipment with unit costs of \$5,000 or more and useful lives of 1 year or more, and all land, buildings, and related improvements with costs of \$5,000 or more. The capital assets list should include all required information.
- Maintain a stewardship list that includes items costing between \$1,000 and \$5,000, and include all required information for each item on the list.
- Affix a permanent tag with an identifying number to each item costing \$1,000 or more, or specifically identify the asset on the list by some other means, such as a serial number. Tags should be prenumbered, numerically controlled, and sequentially issued.
- Retain cost documentation, such as purchase orders, receiving reports, and vendor invoices, to support information recorded on the capital assets list and verify that the cost recorded on the list agrees with supporting documentation.

USFR pages VI-E-2 and 3, and USFR Memorandum Nos. 193 and 196 describe information that should appear on the capital assets and stewardship lists.

- Develop and retain detailed written instructions for taking a physical inventory and provide them to all employees involved with the inventory process. Assign an employee who has no custodial responsibilities to reconcile the physical inventory results to the capital assets and stewardship lists.
- Reconcile capital asset additions to capital expenditures and the current year's capital assets list to the previous year's list, and make all necessary corrections.

The form on USFR page VI-E-13 may be used to document the reconciliation of capital asset additions to capital expenditures.

## The District should strengthen controls over purchasing and expenditures

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the procurement rules and the USFR guidelines as it did not perform due-diligence procedures for purchases made through a purchasing cooperative and did not obtain oral price quotations for purchases that required them. In addition, the District did not always ensure sufficient cash or budget capacity, as applicable, was available before authorizing expenditures. Also, the District did not ensure that blanket purchase orders covered a definite time period and specified an expenditure limit, and timecards retained to support payroll expenditures were not signed by employees.

The District may not have received the best value for the public monies it spent.

## Recommendations

To strengthen controls over purchasing and expenditures, the District should:

- Perform and document due diligence procedures on at least a sample of the contracts that the District wishes to use from a purchasing cooperative to ensure that the procuring entity complied with the School District Procurement Rules.
- Obtain oral price quotations from three or more vendors for purchases that, individually or in the aggregate, cost between \$5,000 and \$15,000. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Verify that sufficient cash or budget capacity exists in the applicable funds before authorizing expenditures from those funds.

USFR guidelines require oral price quotations for purchases between \$5,000 and \$15,000.



- Ensure blanket purchase orders include a specific time period and dollar limit.
- Ensure that employees subject to the Fair Labor Standards Act complete a timecard for each pay period that is signed by the employee, approved by the employee's supervisor, and retained to support payroll expenditures.

## The District should ensure the accuracy of its student attendance records

The District may not have received the appropriate amount of funding since the District did not record membership and absences correctly.

The State of Arizona provides funding to school districts based on student membership and attendance. In turn, the State requires school districts to maintain accurate attendance records to help ensure that the District receives the appropriate amount of state aid and local property taxes. However, the District did not always maintain teacher attendance registers, and the registers that were maintained did not support the District's attendance records and membership and absences reported to ADE. Also, the District's attendance records were not sufficiently detailed to support partial-day attendance.

Further, the District did not always maintain student withdrawal forms, and entry and withdrawal dates shown in the District's records did not always agree to the applicable forms or teacher attendance registers. In addition, the District did not withdraw students with ten consecutive unexcused absences as of the last day of attendance and did not indicate when student entries and withdrawals were recorded in the District's attendance system.

## Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should perform the following:

- Maintain detailed teacher attendance registers to support membership and absences reported to ADE and ensure that the registers agree to the District's attendance records.
- Assign an employee to verify that membership and absences reported to ADE are calculated accurately and agree with the District's records and teacher registers. Investigate and correct all differences.

- Take attendance two or four times a day and record and report membership and absences in accordance with ADE's *Instructions for Required Reports*.
- Prepare and retain documentation to support partial-day attendance, such as sign-in and sign-out logs.
- Retain documentation, including entry and withdrawal forms, to support data reported to ADE. A second employee should verify that entry and withdrawal dates recorded in the District's attendance system and teacher registers agree with the applicable forms.
- Withdraw students with ten consecutive unexcused absences as of the last day of attendance. Documentation should be retained to support the number of unexcused absences at the time of withdrawal.
- Record entries and withdrawals within 5 working days to ensure that the student's enrollment status is accurately reflected in ADE's Student Accountability Information System. Retain documentation to support when entries and withdrawals are recorded.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

## The District's controls over cash receipts and bank accounts should be strengthened

Because of the relatively high risk associated with cash transactions, the District should establish and maintain effective internal controls to safeguard cash and ensure that cash receipts are promptly and accurately recorded and deposited into the District's bank accounts. However, the District did not have strong controls over its cash receipts and bank accounts. Specifically, the District did not separate the responsibilities of cash-handling and recordkeeping for food service cash receipts. In addition, the District did not prepare cash receipt summaries that supported food service monies received and did not deposit food service receipts at least weekly. Also, the District inappropriately allowed adults to charge meals.

Poor cash controls left monies susceptible to loss, theft, or misuse.

Further, the District did not have adequate controls over its Maintenance and Operation (M&O) Fund revolving bank account. Specifically, the District did not maintain documentation to support the Governing Board's designation of the check signer for the account. In addition, the District did not prepare check requests for disbursements from the account and did not cancel vendor invoices and other supporting documentation for disbursements. Finally, the District did not ensure that bank account reconciliations were reviewed by the Superintendent.

## Recommendations

To strengthen controls over cash receipts and bank accounts, the District should:

- Separate the responsibilities of receiving and depositing food service cash receipts. If one employee is responsible for multiple functions, district management should implement additional supervisory reviews at appropriate points in the process to help ensure that adequate internal control is maintained.
- Prepare daily cash count reports to summarize cash receipts and support amounts deposited with the County Treasurer.
- Deposit all food service cash receipts directly with the County Treasurer daily, if significant, or at least weekly.
- Collect monies owed for charged meals and discontinue allowing adults to charge meals.
- Maintain documentation to support the Governing Board's designation of check signers for all bank accounts.
- Prepare and retain documentation to support disbursements from the M&O Fund revolving bank account, such as check requests, vendor invoices, and other supporting documentation. Vendor invoices and other documents should be canceled to prevent duplicate payment.
- Ensure that district management reviews and approves M&O Fund revolving bank account reconciliations.

## The District should establish controls over student activities monies

The District holds student activities monies raised through students' efforts for safekeeping. Therefore, the District has a fiduciary responsibility to ensure that these monies are not misused, lost, or stolen. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, proper oversight was not established. Specifically, the District did not obtain Governing Board approval for student fund-raising activities. In addition, the District did not separate the responsibilities of cash-handling and recordkeeping and did not

The District did not effectively carry out its fiduciary responsibility over student activities monies.

document cash collections. Also, the District did not always deposit receipts in the student activities bank account at least weekly, did not retain bank deposit slips, or perform monthly bank reconciliations. Further, the District's procedures for student activities disbursements were not adequate, as the District did not prepare purchase orders or check requests, did not always retain supporting documentation, or ensure checks had two signatures. Finally, the District's monthly report to the Governing Board did not include all required information.

## Recommendations

To strengthen controls over student activities monies, the District should:

- Obtain Governing Board approval for all student fund-raising activities.
- Separate cash-handling and recordkeeping responsibilities among employees and ensure that bank reconciliations are prepared by an employee not responsible for these functions. If it is not possible due to small staff size, additional supervisory review should be performed during the receipt and disbursement process, and district management should review and approve the reconciliations.
- Document sales at student activities events by issuing prenumbered cash receipt forms or tickets, by using a cash register, or by performing counts of items on hand before and after each activity.
- Prepare cash collection or activity reports to document and reconcile cash collections, and tickets or items sold at student activities events. If it is not practical to document sales, the District should still prepare cash collection reports to document amounts received.
- Deposit all student activities cash receipts daily, if significant, or at least weekly into the student activities bank account, and retain bank deposit slips and reconcile them to validated deposit slips.
- Retain documentation such as check requests or purchase requisitions, purchase orders, receiving reports, and vendor invoices to support student activities disbursements. Vendor invoices should be verified for mathematical accuracy and canceled to prevent duplicate payment.
- Ensure that student activities checks are signed by the student activities treasurer or assistant student activities treasurer and one other person authorized by the Governing Board.
- Ensure that a report of cash receipts, disbursements, transfers, and cash balances is prepared monthly by the student activities treasurer and submitted to the Governing Board in a timely manner.

USFR §X-H provides general policies and procedures for student activities.